Bachus Statement During Municipal Bond Hearing

WASHINGTON - Congressman Spencer Bachus (AL), the top Financial Services Committee Republican, made the following remarks during today's hearing entitled "Legislative Proposals to Improve the Efficiency and Oversight of Municipal Finance."

Good morning, Mr. Chairman and thank you for convening this hearing to examine five legislative proposals designed to address problems in the $2.5 trillion municipal securities market.

All of us are aware of the financial hardships that municipalities across the country are facing from declining tax revenues, depressed property values, and underfunded long term pension and health care obligations.

In my home state, Jefferson County, Alabama is on the verge of becoming the largest municipal bankruptcy in U.S. history, caused by the county's inability to repay $3.9 billion in sewer bond debt tied to interest rate swaps valued notionally at almost $6 billion.

Some of my colleagues on the other side of the aisle believe the Federal government can fix the municipal securities market with unprecedented interventions and bailouts. These interventions include reinsurance programs, for which no bond insurers may be able to qualify, and liquidity facilities that will increase the size of the Federal Reserve's balance sheet. It is important to note that for years municipalities opposed federal intervention into their financing operations. Only now when short term financing options have dried up are municipalities seeking assistance from the federal government.

Mr. Chairman, of the measures that are the subject of today's hearing, your bill to regulate unregulated municipal financial advisors is one that I may be able to support with some changes. We are in agreement with the basic premise that the SEC should require individuals who advise municipalities to register as investment advisers.

However, the Commission has shown that it does not have the ability to examine existing investment advisers, such as Bernard Madoff. It may therefore be appropriate for this Committee to delegate this important examination responsibility to FINRA.

Some of the other bills that we are considering today are more problematic, including legislation that could have the effect of forcing the rating agencies to rate municipal bonds triple-A. It is wrong to assume that municipal bonds never default because they are backed by the taxing authority of the issuer. Moreover, I worry that any bill which directs the evaluation standards for credit rating agencies serves only to further solidify the government's endorsement of the credit rating agencies when we should be moving in the opposite direction.

Also problematic is legislation that would create a federal reinsurer of municipal bonds. Congress does not need to put the American taxpayer on the hook for more losses. The federal government should not be competing with private reinsurance companies that are active in the municipal bond market. The Treasury has no experience in providing reinsurance to municipal bond insurers or at pricing for the reinsurance. In addition, a federal reinsurance program for municipal bond insurers simply bails out bond insurers that strayed from their core business of municipal financial guaranties into much riskier financial products. Furthermore, a federal reinsurance program may provide a competitive advantage to those legacy bond insurers that are unable to insure new municipal bonds because of their prior obligations. Finally, a federal reinsurer may scare off new capital into the industry and undermine the long-term health of the bond insurance market. We should all keep in mind that a properly functioning bond insurance market helps smaller issuers to access the capital markets at more favorable rates.

Mr. Chairman, I want to give the SEC real authority to oversee the municipal securities market and I plan to introduce legislation to that effect. The municipal securities market presents itself to the public as safe, stable and secure for all investors. It should welcome more sunlight, consistent and thorough disclosures that apply across asset classes and commonsense modernization.

###